

Message Text

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GC/LAC:JKESSLER (DRAFT)
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TO AMEMBASSY TEGUCIGALPA PRIORITY
INFO AMEMBASSY GUATEMALA PRIORITY

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TEGUCIGALPA FOR USAID AND RHIDO/ROCAP; GUATEMALA FOR ROCAP

E.O. 11652: N/A

TAGS:

SUBJECT: REVIEW OF LOW COST HOUSING (HIG) INTERIM REPORT -
HONDURAS
REF:STATE 046661

1. THE DAEC REVIEWED THE SUBJECT INTERIM REPORT (IR)
ON JULY 28. SERIOUS DOUBTS WERE EXPRESSED ABOUT THE
WISDOM OF THE MISSION'S PROPOSAL TO UNDERTAKE A 15 MILLION
DOLLAR HOUSING PROGRAM OVER A SIX-YEAR PERIOD, INVOLVING
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BOTH AN URBAN AND RURAL FOCUS, IN LIGHT OF INVA'S LACK
OF INSTITUTIONAL CAPACITY. IT WAS RECOGNIZED THAT ONE
OF THE MAJOR PROJECT OBJECTIVES IS TO STRENGTHEN THE
CAPACITY OF INVA TO PLAN, DESIGN AND CARRY OUT
FINANCIALLY SOUND SHELTER PROGRAMS FOR LOW INCOME
PEOPLE. HOWEVER, AS ACKNOWLEDGED IN THE IR, IT WILL
TAKE SEVERAL YEARS TO OVERCOME INVA'S BASIC WEAKNESSES.

UNTIL THERE IS EVIDENCE THAT THE PLANNED INVA INSTITUTION-BUILDING EFFORT IS TAKING HOLD, AND THAT INVA HAS GAINED THE CAPACITY TO DEVELOP AND MANAGE THE HIGHER VOLUME OF HOUSING WHICH THE IR ARGUES IS NECESSARY FOR INVA TO OVERCOME MANY OF ITS PROBLEMS, THE OBLIGATION AT THIS TIME OF DOLS. 15 MILLION OF GUARANTY AUTHORITY FOR A SIX-YEAR PROGRAM WAS JUDGED TO BE INADVISABLE.

FURTHERMORE, BASED ON DISCUSSIONS AT THE REVIEW, IT APPEARS CLEAR THAT THE 611-TYPE PROJECT PLANNING AND ANALYSIS NECESSARY TO UNDERGRID THE SOUNDNESS OF WHAT WAS TERMED THE QUOTE SECOND TRANCHE UNQUOTE WOULD NOT BE AVAILABLE IN THE PP. INDEED, ONE OF THE KEY FEASIBILITY QUESTIONS IN THIS REGARD WAS HOW INVA WOULD PLAN, DEVELOP, MANAGE AND SERVICE SHELTER PROGRAMS IN RURAL AREAS.

THE CONCLUSION REACHED WAS THAT THE PROPOSED LENGTH OF THE PROJECT AND SIZE OF THE COMMITMENT WERE EXCESSIVE RELATIVE TO INVA'S INSTITUTIONAL CAPACITY AND THE DEGREE OF PROJECT PLANNING LIKELY TO HAVE BEEN COMPLETED BY THE TIME OF THE PP. ACCORDINGLY, INTENSIVE REVIEW IS AUTHORIZED FOR A HOUSING GUARANTY PROGRAM OF THE APPROXIMATE SCOPE AND DURATION OF WHAT WAS DESCRIBED AS THE QUOTE FIRST TRANCHE UNQUOTE IN THE IR. IT WAS ALSO AGREED THAT A FOLLOW-ON GUARANTY, MID-WAY INTO THE IMPLEMENTATION OF THE FIRST PROGRAM, WOULD BE APPROPRIATE IF INVA HAD EVIDENCED THE UNCLASSIFIED

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CREASED INSTITUTIONAL CAPACITY. IT WAS SUGGESTED THAT A PID-EQUIVALENT FOR THE FOLLOW-ON PROJECT BE INCORPORATED INTO THE PP TO AVOID HAVING TO PREPARE A SEPARATE PID AT A LATER DATE.

2. IN ADDITION TO THE CONCERNS CONTAINED IN PID DAEC CABLE REFERENCED ABOVE, THE PP SHOULD ALSO ADDRESS THE FOLLOWING POINTS:

--A. URBAN MASTER DEVELOPMENT PLANS. THE IR NOTES THAT SOME TOWNS AND CITIES, IN PARTICULAR TEGUCIGALPA AND SAN PEDRO SULA, HAVE ADOPTED MASTER URBAN DEVELOPMENT PLANS. IN VIEW OF THE FACT THE GOH HAS NO FORMAL URBAN POLICY THE PP, IN LAYING OUT THE RATIONALE FOR IMPLEMENTING THIS PROJECT PRIOR TO THE ESTABLISHMENT OF A FORMAL URBAN POLICY, SHOULD DISCUSS HOW THE PROPOSED HOUSING PROJECTS FIT INTO THOSE DEVELOPMENT PLANS, AND EXPLAIN HOW NECESSARY PHYSICAL INFRASTRUCTURE, WHICH THE PLANS REFLECT, AS WELL AS SOCIAL SERVICES, WHICH ARE OMITTED IN THE PLANS, WILL BE INTEGRATED WITH PROPOSED HOUSING SUBPROJECTS.

--B. LOAN COLLECTION AND FINANCIAL SOUNDNESS. THE DAEC NOTED THE LARGE NUMBER OF DELINQUENT LOANS IN INVA'S PORTFOLIO AND CONCLUDED THAT A THOROUGH ANALYSIS OF INVA'S

SYSTEM OF DELINQUENT LOAN COLLECTION SHOULD BE CARRIED OUT DURING INTENSIVE REVIEW, INCLUDING AN ANALYSIS OF THE VARIOUS CAUSES OF DELINQUENT LOANS. REVIEW OF INVA'S NEW ORGANIZATIONAL STRUCTURE REVEALED THAT THERE WAS NO OPERATING DEPARTMENT CHARGED WITH MORTGAGE SERVICING OR COLLECTION. IN VIEW OF THE HIGH RATE OF DEFAULT IN INVA'S EXISTING PORTFOLIO, THIS WAS JUDGED A SERIOUS GAP IN ORGANIZATIONAL PLANNING WHICH IS INTENDED TO STRENGTHEN INVA'S FINANCIAL SITUATION AS WELL AS ITS IMAGE AS A

FINANCIAL INSTITUTION. IN THIS AREA, THE PP SHOULD DESCRIBE THE PROPOSED PLAN INCLUDING ORGANIZATIONAL STAFFING, TRAINING REQUIREMENTS FOR DEALING WITH THE EXISTING DELINQUENCY PROBLEM AND LAY OUT PROPOSED POLICIES
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AND PROCEDURES FOR AVOIDING/MINIMIZING DELINQUENCIES ON NEW SHELTER LOANS.

--C. PROPOSED SHELTER SOLUTIONS AND TARGET GROUP. PP SHOULD SET FORTH THE BASIS FOR PROPOSED ALLOCATION OF PROJECT RESOURCES AMONG VARIOUS SHELTER SOLUTIONS AND INCLUDE A TARGET GROUP PROFILE INDICATING INCOME LEVELS, TYPICAL OCCUPATIONS, WHERE CURRENTLY LIVING, CURRENT SHELTER CONDITIONS, ETC.

--D. TECHNICAL ASSISTANCE AND INSTITUTION BUILDING PLAN. THE DAEC NOTED THE LARGE INPUT OF TECHNICAL ASSISTANCE UNDER THE PROJECT AND QUESTIONED HOW IT WOULD BE COORDINATED. IT WAS SUGGESTED THAT DURING INTENSIVE REVIEW, THE POSSIBILITY BE CONSIDERED OF HIRING A FULL-TIME SENIOR ADVISOR TO INVA WHO WOULD WORK WITH THE UPPER MANAGEMENT LEVELS OF INVA AS WELL AS ORCHESTRATE THE PROVISION OF OTHER TA.

--WITH REGARD TO THE PROJECT'S INSTITUTION-BUILDING OBJECTIVE, THE PP SHOULD LAY OUT A TIME-PHASED PLAN SHOWING HOW SEQUENCE AND INTER-RELATIONSHIP OF TRAINING, TECHNICAL ASSISTANCE, ORGANIZATIONAL, PROCEDURAL AND POLICY CHANGES WILL BRING ABOUT IMPROVED PLANNING AND MANAGERIAL CAPACITY AND IMPROVED FINANCIAL MANAGEMENT.

--E. DELEGATION OF AUTHORITY. DURING THE DAEC REVIEW, IT WAS NOTED THAT PROBLEMS CONCERNING THE DIVISION OF RESPONSIBILITY BETWEEN THE GENERAL MANAGER AND THE BOARD OF DIRECTORS STILL EXIST. GIVEN THE IMPORTANCE ACCORDED TO HAVING GREATER AUTHORITY FOR INVA OPERATION VESTED IN GENERAL MANAGER, IF THIS PROBLEM CANNOT BE RESOLVED DURING INTENSIVE REVIEW, IT SHOULD BE TREATED AS CONDITION PRECEDENT TO SIGNING GUARANTY AGREEMENT.

--F. ENVIRONMENT. THE FIELD INSPECTION REPORT AND REVISED IEE REVEALED THAT SOME OF THE PROPOSED HOUSING SITES SUFFER FROM DEFECTS SUCH AS REMOTENESS FROM EMPLOYMENT AND
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SHOPPING CENTERS OR SOILS CONDITIONS AND TOPOGRAPHY THAT INTERFERE WITH THE PROVISION OF SEWAGE AND WATER SERVICES. THE MISSION IS REQUESTED TO ASCERTAIN THAT SUCH DEFECTS DO NOT CAUSE DEVELOPMENT COSTS TO RISE BEYOND WHAT THE TARGET GROUP CAN AFFORD. THE MISSION SHOULD EXPLORE THE FEASIBILITY OF ESTABLISHING GUIDELINES FOR FUTURE SITE SELECTION AND THE NECESSITY FOR PROVIDING TECHNICAL ASSISTANCE IN THIS AREA.

--G. PP PREPARATION. TO AVOID PROBLEMS WHICH HAVE ARISEN IN CONNECTION WITH SCOPE OF ANALYSIS IN SOME HIG PPS IN OTHER LAC COUNTRIES AND TO ASSURE THAT THE SCOPE AND FOCUS OF PROJECT ANALYSES ADDRESS ALL RELEVANT AREAS AND ISSUES

NORMALLY CONSIDERED IN THE CASE OF DIRECT AID LOANS, SUGGEST MISSION CONSIDER INVOLVING LOAN STAFF ON TEAM WHICH WILL BE DEVELOPING PP. VANCE

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